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MARKETING MANAGEMENT

ANALYSIS, PLANNING, IMPLEMENTATION, AND CONTROL

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- Capacity tends to be overbuilt during the rapid growth stage, so that when a cyclical slowdown occurs, industry overcapacity drives down margins to lower levels. New competitors decide not to enter, and existing competitors try to solidify their positions. This leads to the third stage, *share stability,* in which capacity shares and market shares stabilize.
- This period is followed by a stage of *commodity competition*. The product is viewed as a commodity, buyers no longer pay a price premium, and the suppliers earn only an average rate of return. At this point, the *withdrawal* stage begins. The pioneer might decide to build share further as other firms withdraw. As the pioneer moves through the various stages of this competitive cycle, it must continuously formulate new pricing and marketing strategies.

Growth Stage

The growth stage is marked by a rapid climb in sales. The early adopters like the product, and additional consumers start buying the product. New competitors enter the market, attracted by the opportunities for large-scale production and profit. They introduce new product features and expand the distribution chain.

Prices remain where they are or fall slightly, depending on how fast demand is increasing. Companies maintain their promotional expenditures at the same or a slightly increased level to meet competition and to continue to educate the market. Sales rise much faster than promotional expenditures do, causing a decline in the promotion-sales ratio.

Profits increase during the growth stage as (1) promotion costs are spread over a larger volume and (2) unit manufacturing costs fall faster than price declines owing to the producer learning effect.

The rate of growth eventually changes from an accelerating rate to a decelerating rate. Firms have to watch for the onset of the decelerating rate in order to prepare new strategies.

Marketing Strategies in the Growth Stage. During the growth stage, the firm uses several strategies to sustain rapid market growth as long as possible:

- It improves product quality and adds new product features and improved styling.
- It adds new models and flanker products (i.e., products of different sizes, flavors, and so forth that protect the main product).
- It enters new market segments.
- It increases its distribution coverage and enters new distribution channels.
- It shifts from product-awareness advertising to product-preference advertising.
- It lowers prices to attract the next layer of price-sensitive buyers.

The firm that pursues these market expansion strategies will strengthen its competitive position. For example, Starbucks has emerged as the leader in the U.S. market for gourmet coffee and espresso bars:[23]

From its initial nine Seattle stores in 1987, CEO Howard Schultz has grown the company to 425 stores. Starbucks' premium coffees are also being sold now in such venues as airport vending stands and Barnes & Noble bookstore cafes. Not content to sell only steaming brews, the company is offering a new "flanker" product, a bottled coffee drink, and it is taking its winning formula abroad. However, as a result of its success Starbucks is facing competition in a variety of guises, from chains like Seattle's Best Coffee, to mom-and-pop espresso stands, to big players (such as Dunkin' Donuts) that are improving their coffee offerings.

The firm in the growth stage faces a trade-off between high market share and high current profit. By spending money on product improvement, promotion, and distribution, it can capture a dominant position. It forgoes maximum current profit in the hope of making even greater profits in the next stage.

Maturity Stage

At some point, a product's rate of sales growth will slow down, and the product will enter a stage of relative maturity. This stage normally lasts longer than the previous stages, and it poses formidable challenges to marketing management. *Most products are in the maturity stage of the life cycle, and therefore most of marketing management deals with the mature product.*

The maturity stage can be divided into three phases. In the first phase, *growth maturity,* the sales growth rate starts to decline. There are no new distribution channels to fill, although some laggard buyers still enter the market. In the second phase, *stable maturity,* sales flatten on a per capita basis because of market saturation. Most potential consumers have tried the product, and future sales are governed by population growth and replacement demand. In the third phase, *decaying maturity,* the absolute level of sales starts to decline, and customers start switching to other products and substitutes.

The slowdown in the rate of sales growth creates overcapacity in the industry. This overcapacity leads to intensified competition. Competitors scramble to find and enter niches. They engage in frequent markdowns. They increase their advertising and trade and consumer deals. They increase their R&D budgets to develop product improvements and line extensions. They make deals to supply private brands. These steps spell some profit erosion. A shakeout period begins, and weaker competitors withdraw. The industry eventually consists of well-entrenched competitors whose basic drive is to gain competitive advantage.

These competitors are of two types. Dominating the industry are a few giant firms that produce a large proportion of the industry's output. These firms serve the whole market and make their profits mainly through high volume and lower costs. These volume leaders may include a quality leader, a service leader, and a cost leader. Surrounding these dominant firms are a multitude of market nichers. The nichers include market specialists, product specialists, and customizing firms. The nichers serve and satisfy their small target markets very well and command a price premium. The issue facing a firm in a mature market is whether to struggle to become one of the "big three" and achieve profits through high volume and low cost or to pursue a niching strategy and achieve profits through high margin.

MARKETING STRATEGIES IN THE MATURITY STAGE. In the maturity stage, some companies abandon their weaker products. They prefer to concentrate their resources on their more profitable products and on new products. Yet by doing so they may be ignoring the high potential that many old products still have. Many industries widely thought to be mature—autos, motorcycles, television, watches, cameras—were proved otherwise by the Japanese, who found ways to offer new values to customers. Seemingly moribund brands like Jell-O, Ovaltine, and Arm & Hammer baking soda have achieved major sales revivals several times through the exercise of marketing imagination (more details on this in the next chapter). Marketers should systematically consider strategies of market, product, and marketing-mix modification.

Market Modification. The company might try to expand the market for its mature brand by working with the two factors that make up sales volume:

MARKETING INSIGHT

Breaking Through the Mature-Product Syndrome

Managers of mature products need a systematic framework for identifying possible "breakthrough" ideas. Professor John A. Weber of Notre Dame developed the following framework, which he calls *gap analysis,* to guide the search for growth opportunities.

The key idea is to identify possible gaps in the product line, distribution, usage, competition, and so on. Market-structure analysis would prompt the following questions about a mature beverage product such as Kool-Aid:

1. *Natural changes in the size of industry market potential:* Will current birth rates and demographics favor more consumption of Kool-Aid? How will the economic outlook affect Kool-Aid consumption?
2. *New uses or new user segments:* Can Kool-Aid be made to appeal to teen-agers, young adult singles, young adult parents, and so on?
3. *Innovative product differentiations:* Can Kool-Aid be made in different versions such as low calorie or supersweet?
4. *Add new product lines:* Can the Kool-Aid name be used to launch a new soft-drink line?
5. *Stimulate nonusers:* Can elderly people be persuaded to try Kool-Aid?
6. *Stimulate light users:* Can children be reminded to drink Kool-Aid daily?
7. *Increase amount used on each use occasion:* Can more Kool-Aid be put in each package at a higher price?
8. *Close existing product and price gaps:* Should new sizes of Kool-Aid be introduced?
9. *Create new product-line elements:* Should Kool-Aid introduce new flavors?
10. *Expand distribution coverage:* Can Kool-Aid distribution coverage be expanded to Europe and the Far East?
11. *Expand distribution intensity:* Can the percentage of convenience stores in the Midwest that carry Kool-Aid be increased from 70 to 90 percent?
12. *Expand distribution exposure:* Can offers to the trade get more shelf space for Kool-Aid?
13. *Penetrate substitutes' positions:* Can consumers be convinced that Kool-Aid is a better drink than other types of soft drinks (e.g., soda, milk)?
14. *Penetrate direct competitors' position(s):* Can consumers of other brands be convinced to switch to Kool-Aid?
15. *Defend firm's present position:* Can Kool-Aid satisfy the current users more so that they remain loyal?

Source: John A. Weber, *Identifying and Solving Marketing Problems with Gap Analysis* (Notre Dame, IN: Strategic Business Systems, 1986).

mature products. Other marketers argue that brands should be managed as capital assets and supported by advertising. Advertising expenditures should be treated as a capital investment, not a current expense. Brand managers, however, use sales promotion because its effects are quicker and more visible to their superiors, but excessive sales-promotion activity can hurt the brand's image and long-run profit performance.

A major problem with marketing-mix modifications, especially price reductions and additional services, is that they are easily imitated by competitors. The firm may not gain as much as expected, and all firms might experience profit erosion as they step up their marketing attacks on one another.

The Marketing Insight titled "Breaking Through the Mature-Product Syndrome" presents a framework for finding ideas for rebuilding the sales of mature products.

Decline Stage

The sales of most product forms and brands eventually decline. The sales decline might be slow, as in the case of oatmeal; or rapid, as in the case of the Edsel automobile. Sales may plunge to zero, or they may petrify at a low level.

Sales decline for a number of reasons, including technological advances, shifts

in consumer tastes, and increased domestic and foreign competition. All lead to overcapacity, increased price cutting, and profit erosion.

As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of products they offer. They may withdraw from smaller market segments and weaker trade channels, and they may cut their promotion budget and reduce their prices further.

Unfortunately, most companies have not developed a well-thought-out policy for handling their aging products. Sentiment often plays a role:

> *[P]utting products to death—or letting them die—is a drab business, and often engenders much of the sadness of a final parting with old and tried friends. The portable, six-sided pretzel was the first product The Company ever made. Our line will no longer be our line without it.*[26]

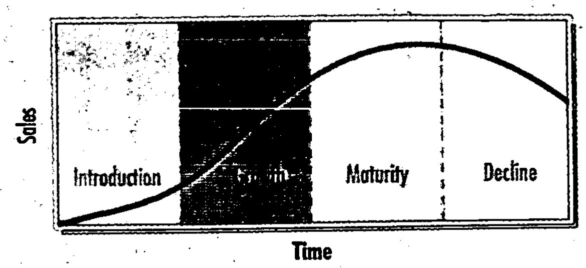
Logic may also play a role. Management believes that product sales will improve when the economy improves, or when the marketing strategy is revised, or when the product is improved. Or the weak product may be retained because of its alleged contribution to the sales of the company's other products. Or its revenue may cover out-of-pocket costs, even if it is not turning a profit.

Unless strong reasons for retention exist, carrying a weak product is very costly to the firm. The cost is not just the amount of uncovered overhead and profit. Financial accounting cannot adequately convey all the hidden costs. Weak products often consume a disproportionate amount of management's time, require frequent price and inventory adjustments, generally involve short production runs in spite of expensive setup times, require both advertising and sales force attention that might be better used to make the healthy products more profitable, and can cause customer misgivings and cast a shadow on the company's image. The biggest cost might well lie in the future. Failing to eliminate weak products delays the aggressive search for replacement products. The weak products create a lopsided product mix, long on yesterday's breadwinners and short on tomorrow's breadwinners; they depress current profitability and weaken the company's foothold on the future.

MARKETING STRATEGIES DURING THE DECLINE STAGE. In handling its aging products, a company faces a number of tasks and decisions.

Identifying the Weak Products. The first task is to establish a system for identifying weak products. To do this, many companies appoint a product-review committee with representatives from marketing, R&D, manufacturing, and finance. This committee develops a system for identifying weak products. The controller's office supplies data for each product showing trends in market size, market share, prices, costs, and profits. A computer program then analyzes this information to help managers decide which products are dubious. The managers responsible for dubious products fill out rating forms showing where they think sales and profits will go, with and without any changes in marketing strategy. The product-review committee examines this information and makes a recommendation for each dubious product—leave it alone, modify its marketing strategy, or drop it.[27]

Determining Marketing Strategies. Some firms will abandon declining markets earlier than others. Much depends on the presence and height of exit barriers in the industry.[28] The lower the exit barriers, the easier it is for firms to leave the industry, and the more tempting it is for the remaining firms to stay and attract the withdrawing firms' customers. The remaining firms will enjoy increased sales and profits. For example, Procter & Gamble stayed in the declining liquid-soap business and improved its profits as the others withdrew.



	Introduction	Growth	Maturity	Decline
CHARACTERISTICS				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
MARKETING OBJECTIVES				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
STRATEGIES				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and models	Phase out weak items
Price	Charge cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

FIGURE 12-8

Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

Source: This figure was assembled from several sources: Chester R. Wasson, *Dynamic Competitive Strategy and Product Life Cycles* (Austin, TX: Austin Press, 1978); John A. Weber, "Planning Corporate Growth with Inverted Product Life Cycles," *Long Range Planning,* October 1976, pp. 12–29; and Peter Doyle, "The Realities of the Product Life Cycle," *Quarterly Review of Marketing,* Summer 1976, pp. 1–6.

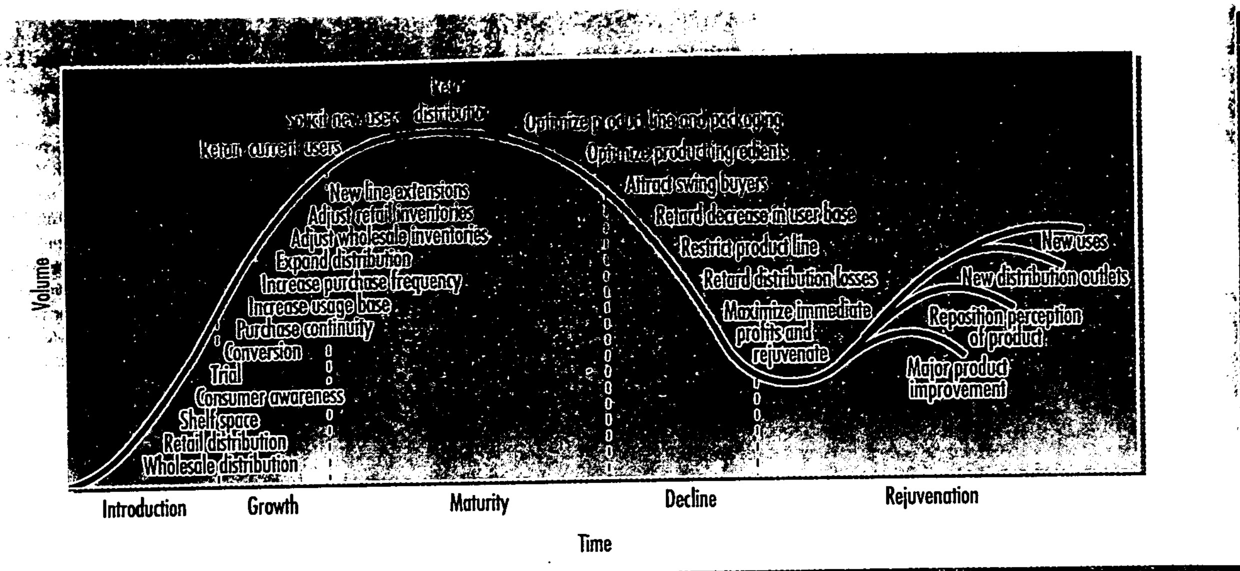


FIGURE 12-9
PLC Marketing for Grocery Products

QUARTERDECK OFFICE SYSTEMS Quarterdeck used to turn a tidy profit serving a niche created solely by Microsoft. It sold software enhancements to Microsoft's DOS systems. So when Microsoft launched its Windows 3.0, which incorporated features of Quarterdeck's software, the smaller company could have gone belly up. Instead, Quarterdeck thought long and hard about the technology life cycle. While Microsoft was aiming Windows at the introductory and growth stages of the computer life cycle, Quarterdeck found that it could aim its software at products in the mature and declining stages. For instance, Quarterdeck managers observed that its software worked more efficiently with older computer models that run DOS and for users who struggle to learn new programs and who resist trading up to new hardware. They also found that these segments were substantial—large enough enough to fuel the continued success of their business.[34]

Firms need to anticipate a market's evolutionary path as it is affected by new needs, competitors, technology, channels, and other developments.

Stages in Market Evolution

Like products, markets evolve through four stages: emergence, growth, maturity, and decline.

EMERGENCE STAGE. Before a market materializes, it exists as a latent market. A *latent market* consists of people who share a similar need or want for something that does not yet exist. For example, for centuries people have wanted a means of more rapid calculation than can be provided by a paper and pencil. Until fairly recently, this need was imperfectly satisfied through abacuses, slide rules, and large adding machines.

Suppose an entrepreneur recognizes this need and imagines a technological solution in the form of a small, hand-size electronic calculator. He now has to determine the product attributes, including the calculator's physical size and the number of mathematical functions it will perform. Because he is market-oriented,

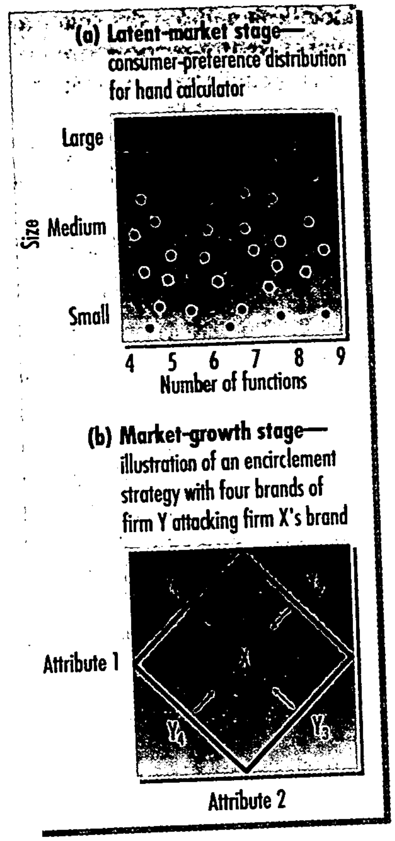


FIGURE 12-10
Market-Space Diagrams

he interviews potential buyers and asks them to state their preferred levels on each attribute.

Assume that consumer preferences are represented by the dots in Figure 12-10(a). Each dot represents one person's preferences. Evidently target customers vary greatly in their preferences. Some want a four-function calculator (adding, subtracting, multiplying, and dividing) and others want more functions (calculating percentages, square roots, logs, and so forth). Some want a small hand calculator and others want a large one. This type of market, in which buyer preferences scatter evenly in a market, is called a *diffused-preference market.*

The entrepreneur's problem is to design an optimal product for this market.[35] He has three options:

- The new product can be designed to meet the preferences of one of the corners of the market (a *single-niche strategy*).
- Two or more products can be simultaneously launched to capture two or more parts of the market (a *multiple-niche strategy*).
- The new product can be designed for the middle of the market (a *mass-market strategy*).

For small firms, a single-niche market strategy makes the most sense. A small firm has insufficient resources for capturing and holding the mass market. Therefore its best bet is to develop a specialized product and capture a corner of the market that will not attract competitors for a long time.

A large firm might go after the mass market by designing a product that is medium in size and number of functions. A product in the center minimizes the sum of the distances of existing preferences from the actual product. A hand calcu-